

**TESTIMONY WITH  
SCHEDULES OF  
MARIE E. KOZEL *ON  
BEHALF OF  
CHESAPEAKE UTILITIES***

BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF )  
CHESAPEAKE UTILITIES CORPORATION )  
FOR APPROVAL OF A CHANGE IN ITS ) P.S.C. DOCKET NO. 08-  
GAS SALES SERVICE RATES ("GSR") )  
TO BE EFFECTIVE NOVEMBER 1, 2008 )

DIRECT TESTIMONY OF MARIE E. KOZEL

On Behalf of Chesapeake Utilities Corporation

Delaware Division

Submitted for filing: September 2, 2008

1 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

2 A. My name is Marie E. Kozel, and I am the Senior Procurement Analyst with  
3 Chesapeake Utilities Corporation ("Chesapeake" or "the Company"). My  
4 business address is 350 S. Queen Street, Dover, Delaware 19904.

5

6 Q. DESCRIBE BRIEFLY YOUR EDUCATION AND RELEVANT  
7 PROFESSIONAL BACKGROUND.

8 A. I received a Bachelor of Science Degree in Finance with a minor in English  
9 from La Salle University in Philadelphia, Pennsylvania. I have more than 15  
10 years of progressively responsible experience in financial analysis. I was  
11 hired by Chesapeake Utilities Corporation in November 2007. My  
12 responsibilities are inclusive of all matters associated with gas supply and its  
13 procurement for Chesapeake Utilities Corporation. Immediately prior to  
14 joining Chesapeake, I was employed by ING Financial Services in West  
15 Chester, PA as Senior Financial Analyst in Operational Risk Management of  
16 the Retail Life Division, where I performed audits for the purposes of  
17 compliance with the Sarbanes Oxley Act of 2002. My responsibilities also  
18 included the implementation of operational risk management objectives,  
19 exposure analysis and awareness education for divisional staff. I have also  
20 held positions with JP Morgan Chase and Radian Guaranty Inc., where I was  
21 responsible for revenue and expense analysis, budget preparation and staff  
22 management.

1 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE DELAWARE PUBLIC  
2 SERVICE COMMISSION?

3 A. No I have not.  
4

5 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS  
6 PROCEEDING?

7 A. The purpose of my direct testimony in this Gas Sales Service Rate ("GSR")  
8 application is to support the overall calculation of the Delaware Division's  
9 three proposed Gas Sales Service Rates to be effective with service  
10 rendered on and after November 1, 2008. My direct testimony will also  
11 discuss the Company's gas supply and procurement as required by  
12 Commission Order No. 4767 issued on April 14, 1998 in the Company's Gas  
13 Sales Service Rate filing in Docket No. 97-294F.  
14

15 Q. ARE THERE ANY SCHEDULES INCLUDED WITH YOUR DIRECT  
16 TESTIMONY?

17 A. Yes, my direct testimony includes Schedules L and M.  
18

19 Q. WHAT PIPELINE SUPPLIERS ARE CURRENTLY PROVIDING SERVICES  
20 TO THE DELAWARE DIVISION?

21 A. The Delaware Division is currently receiving a mix of transportation and  
22 storage services from four interstate pipeline suppliers. These four pipeline

1 suppliers are Transcontinental Gas Pipe Line Corporation ("Transco"),  
2 Columbia Gas Transmission Corporation ("Columbia"), Columbia Gulf  
3 Transmission Company ("Columbia Gulf"), and Eastern Shore Natural Gas  
4 ("ESNG").  
5

6 Q. WHAT WERE THE DELAWARE DIVISION'S CAPACITY ENTITLEMENTS  
7 ON UPSTREAM PIPELINES DURING THE LAST WINTER SEASON?

8 A. Schedule L represents the Delaware Division's winter season upstream  
9 capacity entitlements that were effective November 1, 2007.  
10

11 Q. HAS THE DELAWARE DIVISION CHANGED ITS CAPACITY  
12 ENTITLEMENTS ON ANY OF THESE PIPELINES SINCE THE LAST GSR  
13 PROCEEDING?

14 A. Yes. The Delaware Division has obtained an increase of 10,000 Dts in  
15 capacity entitlements on Transco effective as of November 1, 2008. The  
16 Delaware Division also increased its capacity entitlements by 4,000 Dts on  
17 the ESNG pipeline effective November 1, 2008. Schedule L shows the  
18 Delaware Division's capacity entitlements for the upcoming winter season  
19 that were used in the calculation of fixed demand costs for this determination  
20 period.

1 Q. PLEASE EXPLAIN THE CHANGE IN CAPACITY ENTITLEMENTS FOR  
2 THIS DETERMINATION PERIOD IN GREATER DETAIL.

3 A. The Delaware Division continues to experience steady growth in its  
4 residential and small commercial customer base. As a result, capacity  
5 upstream of ESNG as well as additional firm transportation capacity on  
6 ESNG is needed to meet the Company's projected firm obligations under  
7 design conditions for firm customers. Transco's Sentinel Expansion Project  
8 is the first project upstream of ESNG that will provide additional firm  
9 transportation capacity for the Company. The Delaware Division has  
10 secured 10,000 Dts for a term of 20 years. On ESNG, the Company  
11 increased its daily firm transportation entitlements under ESNG's FT Rate  
12 Schedule by 4,000 Dts effective November 1, 2008. Approximately two and  
13 one-half percent (2.5%) of the new ESNG entitlements will be utilized to  
14 serve the Delaware Division's customers in eastern Sussex County. The  
15 costs associated with these capacity increases have been appropriately  
16 included in the Delaware Division's GSR calculation for this determination  
17 period.

18  
19 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE COMPANY'S GAS  
20 SUPPLY PROCUREMENT ACTIVITIES SINCE NOVEMBER 1, 2007.

21 A. The Company has purchased a portion of its requirements from third party  
22 suppliers pursuant to short-term agreements and has used its Asset

1 Manager for baseload and spot purchases to meet projected daily demand  
2 requirements. It is consistent with the Company's procurement practices to  
3 minimize its exposure to the volatility of the daily market during the winter  
4 season; therefore, most of the Company's gas supply costs during the winter  
5 months are based on fixed prices that are set prior to the beginning of the  
6 delivery month. The daily spot purchases referenced above are susceptible  
7 to the daily market volatility. However, due to the varying nature of the  
8 Company's demand requirements, it is essential to have an element of spot  
9 supply to insure the Company has the flexibility to comply with pipeline tariffs  
10 and operating requirements. During the period since November 2007, the  
11 Company has procured firm and interruptible supply to meet its demand  
12 requirements and maintain targeted storage inventory levels. A mix of  
13 pricing mechanisms, including commodity prices based on the published  
14 "Inside FERC" monthly index, the published "Gas Daily" midpoint and  
15 "triggers" based on New York Mercantile Exchange postings have been used  
16 to mitigate the impact of market fluctuations on the commodity cost of gas  
17 during this period. Effective July 12, 2007, the Company implemented the  
18 parameters identified in the commodity procurements plan ("plan") attached  
19 to the settlement agreement of PSC Docket. 06-287F. The parameters of the  
20 plan dictates that the Company will enter into physical transactions for  
21 natural gas for the upcoming twelve-month period on the second Wednesday  
22 of each month. The Company has followed the guidelines set forth in the

1 plan since its implementation. The parameters of the plan also require a  
2 review of the plan after it has been in effect for two years. At that time the  
3 Company will propose any changes that it feels are appropriate.  
4

5 Q. PLEASE BRIEFLY EXPLAIN THE COMPANY'S RELATIONSHIP WITH ITS  
6 ASSET MANAGER AND THE SERVICES THAT ARE PROVIDED.

7 A. The Company is currently in the midst of an Asset Management Agreement  
8 which is due to expire on March 31, 2009. Our Asset Manager, provides  
9 capacity management, as well as scheduling and nominating on upstream  
10 pipelines, firm and interruptible gas supply, balancing of supply resources,  
11 and monthly accounting and reporting of transactions. The Company's firm  
12 customers benefit from the Agreement, which provides the Company with  
13 access to reliable and flexible supply alternatives in addition to enhanced  
14 fixed cost recovery relating to the Company's transportation and storage  
15 entitlements. The guaranteed cost recovery achieved by the Company is  
16 reflected as a credit on the monthly supply invoice that is submitted by the  
17 Asset Manager and the value that is generated pursuant to the Agreement is  
18 ultimately credited to the Delaware Division's firm customers through the  
19 Company's margin sharing mechanism. As a condition of the pending  
20 settlement in the Company's Gas Sales Rate Application (GSR) - PSC  
21 Docket No. 07-246 (Filed Sept. 10, 2007), it is the Company's intent to seek  
22 to extend its current relationship and request certain information from its



1 Asset Manager in order to determine a fair and reasonable margin sharing  
2 fee structure for future asset management agreements. If the Company is  
3 unable to reach an agreement with its current Asset Manager, the Company  
4 will seek to issue a Request for Proposal from the market.  
5

6 Q. WHAT ARE THE DELAWARE DIVISION'S PLANS REGARDING GAS  
7 SUPPLY FOR THE UPCOMING WINTER SEASON OF 2008-2009?

8 A. The Company has prepared demand projections for the upcoming winter  
9 season of 2008-2009, which is visually represented by Schedule M, and it  
10 expects to meet those demand projections with supply purchases of  
11 baseload, daily spot and bundled gas as well as the supply that will be  
12 provided from the Company's contracted storage. Approximately 50% of the  
13 winter's expected requirements have been procured utilizing the Company's  
14 commodity procurement plan. In addition to the supply arrangements with  
15 the Asset Manager that would be expected to bridge the gap between the  
16 forecasted demand requirements and the supply and storage already  
17 procured, the Company will obtain the rights to call on natural gas supply in  
18 excess of its Transco and Columbia entitlements from several different  
19 independent suppliers. This supply will be delivered on a firm basis to  
20 ensure the Company's ability to service its firm customers on a peak day. In  
21 addition, Chesapeake will continue to maintain "no requirements" contracts  
22 with several natural gas suppliers to ensure that alternative gas supply

1 sources are readily available in the event they are needed. These contracts  
2 can provide firm gas supply upon the execution of confirmations by both  
3 parties.

4

5 Q. WHAT DOES THE DELAWARE DIVISION DO IN AN EFFORT TO  
6 MITIGATE THE IMPACT ON ITS CUSTOMERS OF MARKET PRICE  
7 VOLATILITY?

8 A. The central objective of the Delaware Division's Natural Gas Commodity  
9 Procurement Plan is to secure and deliver reliable competitively priced gas  
10 supplies for its customers. To do this, the Company must balance reliability  
11 and flexibility of supply with cost-effective delivery and it must make every  
12 effort to insure that its gas commodity procurement practices support its  
13 supply plan. The Company's ultimate responsibility is to provide dependable  
14 supply to meet the demands of its firm customers. The Company uses a mix  
15 of pricing mechanisms from suppliers to insure that a cross section of market  
16 activity and competitive prices are achieved as it procures the natural gas to  
17 meet these customers' requirements. In order to improve the reliability of  
18 supply and to mitigate the impact of winter price fluctuations, the Company's  
19 supply portfolio also includes gas that is stored during the summer months of  
20 April through October primarily intended for use during the November  
21 through March period. By November of each year the Company has  
22 effectively secured a fixed price for a significant portion of its winter gas

1 supply thereby hedging its customers against the full impact of any extreme  
2 winter price escalations that may occur. Chesapeake adheres to a  
3 procurement program that insures that its storage capacity will be  
4 operationally full in time for the winter season. The Company also maintains  
5 ongoing "no requirements" contractual relationships for spot and term  
6 purchases of natural gas and may use these contracts to establish fixed  
7 prices for future physical supplies by using New York Mercantile Exchange  
8 ("NYMEX") prices. The Company gathers market intelligence from various  
9 sources including trade publications, newsletters and direct communications  
10 with traders that are active in the daily and forward markets. The Company  
11 has initiated the use of a commodity procurement plan which enables the  
12 Company to obtain a weighted average fixed price for no greater than fifty  
13 percent (50%) of the forecasted flowing natural gas requirements based on  
14 the most current GSR filing. This fifty percent (50%) of natural gas supply is  
15 procured in one-twelfth (1/12) increments over the twelve months proceeding  
16 the month in which the gas is to be delivered. This allows the Company the  
17 opportunity to mitigate market volatility by ensuring that the gas supply  
18 procured in this manner is reflective of the events occurring over a one year  
19 period. This type of plan assures that in an upward market, customers will  
20 not be subject to gas purchased only at the high rate, but will have  
21 approximately one half of their supply purchased while the prices were lower.  
22 Conversely, in a downward market, customers would be subject to higher

1 prices for approximately one half of their requirements, and the balance  
2 could be obtained at lower prices. The Company believes that this practice  
3 eliminates some of the risk of complete exposure to market variables and  
4 enhances its ability to provide some price stability for its customers.  
5

6 Q. PLEASE BRIEFLY EXPLAIN THE RESULTS OF THE COMPANY'S  
7 NATURAL GAS PROCUREMENT PLAN SINCE NOVEMBER 1, 2007.

8 A. The Company's Natural Gas Commodity Procurement Plan has been in  
9 place since July 2007, just over one year. It was established to reduce the  
10 Company's exposure to fluctuations in the market price of natural gas  
11 purchased in order to mitigate the impact of market fluctuations to the  
12 Company's customers. The purpose of the hedging program is to maintain  
13 the current eligible portfolio as 70% of the Company's total gas supply  
14 requirements to meet its forecasted weather normalized firm sales, reduced  
15 by the storage gas volumes forecasted to be used to meet such firm  
16 requirements. An initial period of 2 years was established for the program,  
17 after which, a review of the Commodity Procurement Plan will occur. Over  
18 the past year, the Company has followed the program successfully and has  
19 reviewed the results quarterly with the PSC. In April 2008, market prices  
20 began to climb, reaching a high of \$13.927 on June 17, 2008. Although a  
21 specific reason for the high prices is not known, at the time the natural gas  
22 market was pressured by high oil prices, low LNG imports, and a widening

1        year-over-year storage deficit. As a result of the volatile market, the  
2        Company and the PSC met on July 1, 2008 to discuss the status of the  
3        program and whether or not a change should be made. It was determined  
4        that no changes were necessary and the program would continue as  
5        planned. Prices have since come down, but the weighted average fixed  
6        price of the hedged natural gas will reflect the market volatility during that  
7        four month period.

8

9    Q.    DOES THIS CONCLUDE YOUR TESTIMONY?

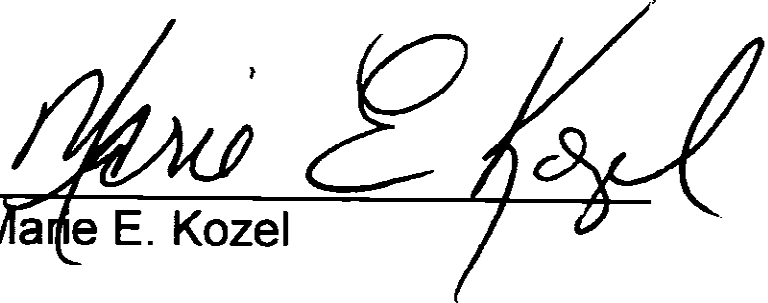
10   A.    Yes, it does.

DATED: SEPTEMBER 2, 2008


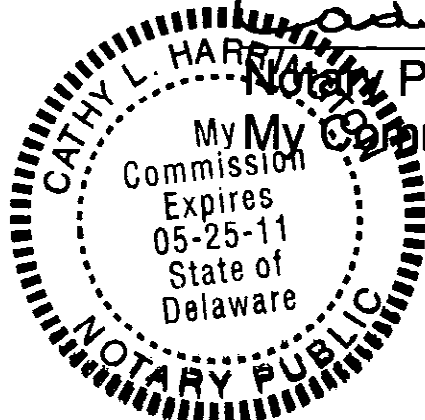
STATE OF DELAWARE     )  
                                      )  
COUNTY OF KENT        )

AFFIDAVIT OF MARIE E. KOZEL

MARIE E. KOZEL, being first duly sworn according to law, on oath deposes and says that she is the witness whose testimony appears as "Chesapeake Utilities Corporation, Delaware Division, Direct Testimony of Marie E. Kozel;" that, if asked the questions which appear in the text of the direct testimony, she would give the answers that are therein set forth; and that she adopts this testimony as her sworn direct testimony in these proceedings.

  
Marie E. Kozel

Then personally appeared this 2nd day of September 2008 the above-named Marie E. Kozel and acknowledged the foregoing Testimony to be her free act and deed. Before me,

  
Cathy L. Harris, Notary Public  
My Commission Expires: 05-25-11  


**Schedule L**  
**November 1, 2008**

**Chesapeake Utilities Corporation**  
**Delaware Division**  
**Gas Supply Resources**  
**Demand and Capacity Entitlements effective November 2007 & November 2008**  
**(DT)**

<b>Transcontinental Gas Pipeline Corporation</b>			
		<b>2007</b>	<b>2008</b>
FT, MDQ	+	11,045	21,045
PS-1 FT, MDQ	+	311	311
GSS, MDQ	+	2,655	2,655
LSS, MDQ	+	580	580
LGA, MDQ	+	911	911
GSS, Capacity		131,370	131,370
LSS, Capacity		29,000	29,000
LGA, Capacity		5,708	5,708
WSS, Demand		1,680	1,680
WSS, Capacity		142,830	142,830
ESS, Demand		1,786	1,786
ESS, Capacity		17,967	17,967
EESWS, Demand		2,941	2,941
EESWS, Capacity		29,295	29,295
<b>Columbia Gulf Transmission Company</b>			
		<b>2007</b>	<b>2008</b>
FTS-1, MDQ, Nov - Mar		880	880
FTS-1, MDQ, Apr - Oct		809	809
<b>Columbia Gas Transmission Corporation</b>			
		<b>2007</b>	<b>2008</b>
FTS, MDQ	+	3,460	3,460
SST, MDQ, Oct - Mar		8,224	8,224
SST, MDQ, Apr - Sep		4,113	4,113
FSS, MDQ	+	8,224	8,224
FSS, Capacity		471,954	471,954
<b>Eastern Shore Natural Gas Company</b>			
		<b>2007</b>	<b>2008</b>
FT, MDQ		52,556	56,556
ST, MDQ		5,081	5,081
Total		57,637	61,637
<b>Chesapeake Utilities Corporation - Delaware Division</b>			
		<b>2007</b>	<b>2008</b>
Propane Peak Shaving Facilities		12,048	12,048

**MDQ = Maximum Daily Quantity**

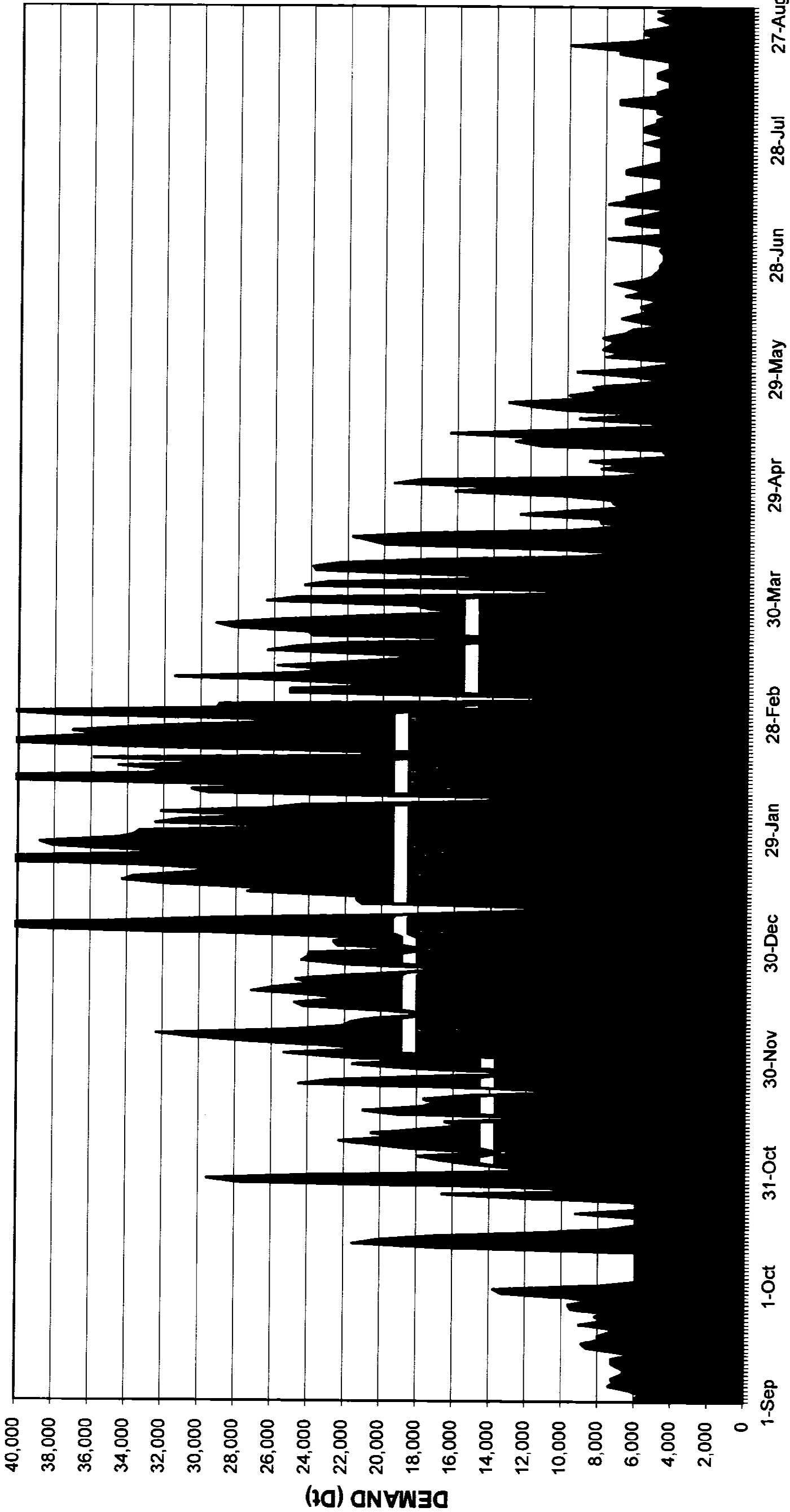
# DELAWARE DIVISION LOAD AND SUPPLY

2008 - 2009 Forecast Year

CHART

Weather Year Used:

10-YR Avg



Schedule M  
November 1, 2008

■ End-User Supply	■ Transco Zones 1	■ Transco Zone 2	■ Transco Zone 3	■ WSS Baseload	■ FSS Baseload	□ Columbia FTS-1
■ Columbia FTS	■ Net Col SST	■ Swing Zone 1	■ Swing Zone 2	■ Swing Zone 3	■ Zone 6	■ FSS
■ GSS	■ LSS	□ ESS	□ LGA	■ Propane	■ Shortfall	■ Transco Zone 5